HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Greater Sudbury CMA

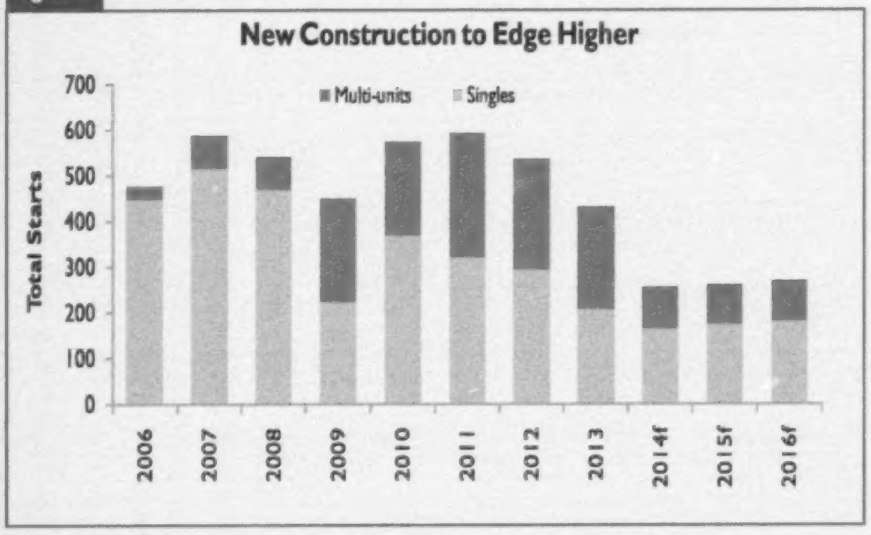
CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Fall 2014

Highlights

- Total starts will edge higher next year.
- Existing home sales will finish 2014 lower but will recover in 2015.
- Balanced resale market will lead to moderate price growth over the forecast horizon.

Figure 1



Source: CMHC (Starts Survey); f= CMHC Forecast

The forecasts included in this document are based on information available as of October 22, 2014.

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New Home Market: New Construction to Edge Higher

Total housing starts in the Sudbury area are expected to grow modestly by two percent and four percent in 2015 and 2016 respectively. Improved global economic conditions in the next two years will support Sudbury's export based local economy leading to a lower unemployment rate and growth in earnings. This will sustain demand for new homes. This strength will follow a year which saw weaker construction activity. New construction in Greater Sudbury will edge lower by 41 percent to 255 units in 2014. Summer months could not inject energy to new home market after a slower start of the construction season this year due to severe winter. Moreover, the apartment starts could not keep the same pace as seen in the previous five years and contributed a lion's share in the overall decline for total starts so far this year.

Single-detached starts will remain a major contributor to new construction market over the forecast horizon. However, they will decline by 21 percent in 2014 on an annual basis, to 165 units, mainly due to greater competition from their resale counterparts both in terms of price and location. Increase in average weekly earnings and anticipation of the proposed increase in development charges in July 2016 will spur single-detached starts activity starting from the third quarter of 2015. Single-detached starts are expected to increase by six percent and three percent to 175 and 180 units in 2015 and 2016 respectively.

Slower demand this year will lead to sluggish growth in the average price for absorbed single-detached homes which is expected to increase by one percent in 2014 on an annual basis. The average price for absorbed single-detached homes is expected to grow at three percent and 4.5 percent in 2015 and 2016 respectively, mostly due to the aforementioned proposed increases in municipal development charges.

The multi-unit (semis, rows and apartments) starts are expected to drop by sixty percent in 2014 to 90 units followed by relatively modest decline of 5.6 percent to 85 units in 2015. Improved economic conditions in 2016 will support job creation for younger population and improved in-migration. These factors will accelerate absorption of any excess supply of rental apartments from previous year. This will support multi-unit starts which are expected to grow by six percent in 2016 to 90 units.

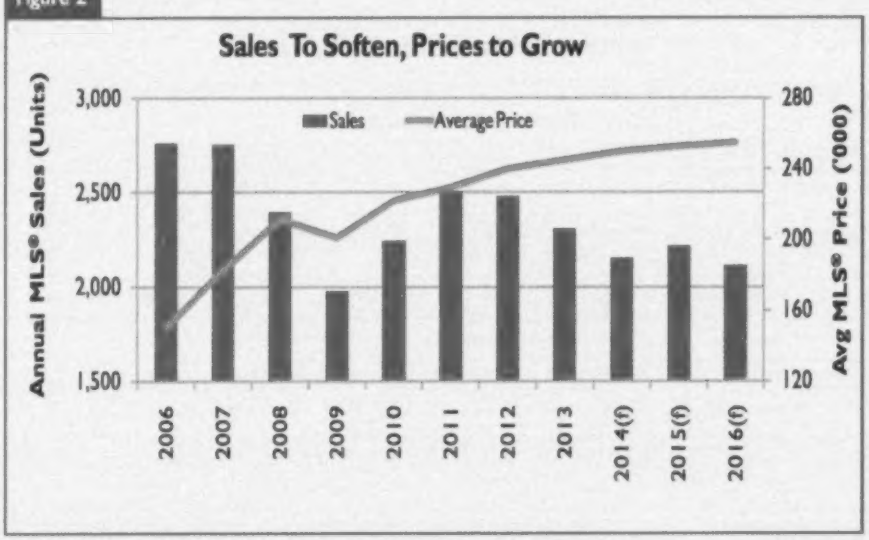
The apartment starts are historically volatile from one period to the next. Yet, the year-to-date permits data, one of the le ing indicators of the construction industry's intentions in coming months, is signaling a quieter fall season for apartment starts. Furthermore, elevated levels of rental apartment units under construction and lower demand for semis and rows will restrict the healthy starts activity for multi-units structures as seen in recent years.

Existing Home Market: Sales to Soften This Year; Price Growth to Continue

Total MLS® sales are expected to register an overall decline of 6.8 percent on an annual basis for 2014.

Existing home sales declined by 14 percent in the first four months of this year compared to last year due to an unusually long and harsh winter. However, the resale market activity

Figure 2



Source: CREA(MLS®); f=CMHC Forecast
MLS® is a registered trademark of the Canadian Real Estate Association

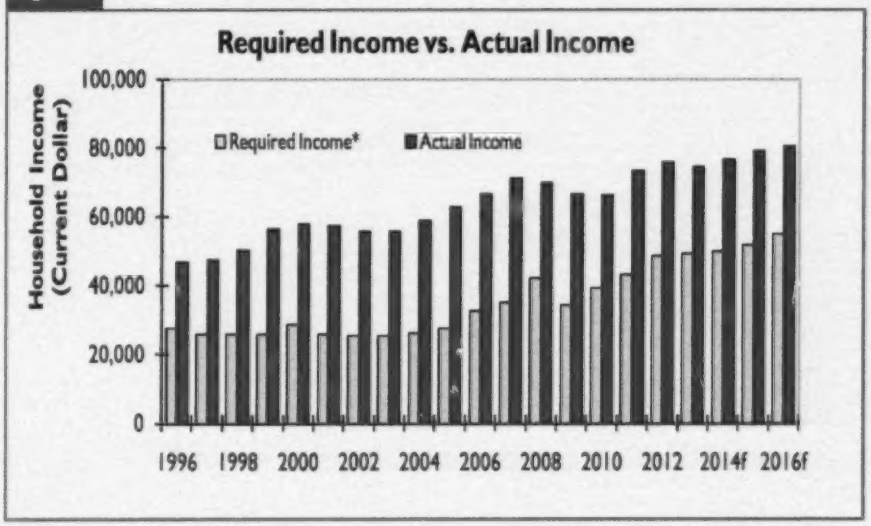
from May to September compensated for the large drop from earlier this year by reducing the overall decline to 9.6 percent for the first nine months as compared to same period last year. This is an indication that demand has not weakened and will continue to support resale market for the remainder of 2014 barring early onset of extreme cold weather.

The prospects of improved job market, growing average weekly earnings and the anticipation of increase in mortgage interest rates will boost the demand for existing homes in Greater Sudbury next year. MLS® sales in Greater Sudbury are expected to pick up gradually from the second quarter of next year and are forecast to increase by 2.3 percent in 2015 on an annual basis. Despite the forecast for an increase in mortgage interest rates, they will still remain low by historical standards. However, the buyers' concerns regarding higher mortgage carrying costs will dampen demand in 2016. Hence, the MLS® sales are expected to decline by 4.5 percent in 2016.

MLS® listings in Greater Sudbury grew faster than the MLS® sales so far this year. Yet, the resale market in Greater Sudbury remained within the balanced market range. Despite the downward trend in sales, the average price for an existing home is expected to grow by 1.9 percent on an annual basis in 2014 mainly due to proportionately higher level of MLS® sales within the more expensive price ranges.

The combination of slower sales and stronger supply will tilt resale market to a cooler side of balanced range from the last quarter of 2014. This will translate into slower growth in average MLS® price at 1.2 percent in 2015. Anticipated increase in mortgage carrying costs due to mortgage

Figure 3



Source: CMHC, Statistics Canada, CREA
*Required income is mortgage carrying costs divided by 0.32 to reflect the usual 32 per cent gross debt service ratio. Mortgage carrying costs are calculated based on a 10 per cent down payment, the posted fixed five year mortgage rate and the longest available amortization for a mortgage.

rates increase will dampen price acceleration to only 0.8 percent in 2016. Homeownership affordability is projected to improve this year and the next as average weekly earnings remain strong.

Rental Market: Vacancy Rates to Increase

The average vacancy rate for rental apartments with three units and more is anticipated to increase to four percent in October 2014 from 3.4 percent in October 2013. At the beginning of this year, 299 rental apartments were under-construction but only 36 units were completed till July. This is an indication that the developers are cautiously bringing these rental apartments to the market, keeping supply of new rental apartments in check.

The average vacancy rate in Greater Sudbury is expected to increase to 4.3 percent and 4.6 percent in 2015 and 2016 respectively. Slower in-migration and high unemployment for youth population has resulted in sluggish rental demand lately. Moreover, anecdotal evidence indicates that the secondary units are bringing more supply to the market. Though the elevated supply of all types of rental units, both purpose-built and secondary units are offering more choices to renters, this is at the same time affecting the demand for purpose-built rental units adversely resulting in higher vacancy rates.

Sudbury's post secondary educational institutions continue to attract more students from outside Sudbury. New programs such as Environmental Studies at Laurentian University, Design and Visual Arts at Cambrian College and Agricultural Technology at College Boreal will attract more non-resident students creating demand for rental units in Greater Sudbury. However, higher student demand will not be sufficient to cancel out the effect of increasing supply.

The average rent for two bedroom apartments in Greater Sudbury is forecast to increase to $928 in October 2014 from $914 in October 2013. Inclusion of newer rental units in the rental universe, which traditionally carry higher rents, will lead to relatively higher increase in rents in 2015-16. The average rent for two bedroom apartments is expected to increase to $950 and $965 in 2015 and 2016 respectively.

Economic Trends: Weekly Earnings to Grow

The demand for Sudbury's key exports, copper and nickel, was not strong enough to have a meaningful impact on its mining industry so far this year. Due to uncertainty in the economies generating higher demand for base metals in the past, new large capital investments in the mining sector are not coming forth in Greater Sudbury. However, on-schedule opening of Totten nickel mine, which is Sudbury's first new mine in 40 years, will help increase output in coming years. As well, there has been some progress on the 'Ring of Fire' project but it is still too early for Greater Sudbury's mining sector to reap any benefits from this project.

Despite pressures on the mining sector, it has created 1,300 jobs in the last twelve months. Retail trade and accommodation are other industries which added to total employment during the same period. The unemployment rate in Greater Sudbury is forecast to remain stable at 7.2 percent by the end of this year. Improved economic conditions will provide impetus to Sudbury's labour market in the next two years. The unemployment rate in Greater Sudbury is expected to drop to 6.8 percent in 2015 and to 6.7 percent in 2016.

Figure 4

Source: Statistics Canada; f=CMHC Forecast

The 25-44 year age group was the only age group which has seen a drop in its unemployment rate in the last year. However, this decline in unemployment rate was primarily due to the drop in the labour force for this age group. Since the 25-44 year age group represents prime home buyers, both first-time and move-up buyers, a decline in labour force for this age group will affect housing demand adversely.

The average weekly earnings in Greater Sudbury started to rise this year after subdued performance in 2013. The average weekly earnings in Greater Sudbury are expected to increase by three percent in 2014. This increasing trend is expected to continue in 2015-16. The average weekly earnings are expected to increase by three percent and two percent in 2015 and 2016 respectively. Higher earnings along with historically lower interest rates will support housing demand in Greater Sudbury.

Mortgage Rate Outlook

Mortgage rates are expected to remain unchanged until the latter months of 2015

Consistent with the view of Canadian economic forecasters, CMHC expects interest rates to remain unchanged until the latter parts of 2015 and then begin to increase gradually. Gradual increases in mortgage rates from historic lows are not expected to significantly impact housing demand.

According to CMHC's base case scenario for 2014, CMHC expects the one-year mortgage rate to be in the

Mortgage rates		
1 Year	Q3 2014	3.14
	Change from Q3 2013	0.00
	2014 (F)	3.00 - 3.25
	2015 (F)	3.20 - 4.00
	2016 (F)	3.70 - 4.60
5 Year	Q3 2014	4.79
	Change from Q3 2013	-0.48
	2014 (F)	5.00 - 5.50
	2015 (F)	5.25 - 6.00
	2016 (F)	5.55 - 6.45

Source: Bank of Canada, CMHC Forecast
NOTE: Mortgage rate forecast is based on Q3 2014 data

3.00 to 3.25 per cent range, while the five-year rate is forecast to be within the 5.00 to 5.50 per cent range. For 2015, the one-year mortgage rate is expected to be in the 3.20 to 4.00 per cent range, while the five-year rate is forecast to be within the 5.25 to 6.00 per cent range. For 2016, the one-year mortgage rate is expected to be in the 3.70 to 4.60 per cent range, while the five-year rate is forecast to be within the 5.55 to 6.45 per cent range.

Trends at a Glance

Key Factors and Their Effects on Housing Starts	
Mortgage Rates	Short term mortgage rates are expected to remain at historical low levels which will continue to support housing demand.
Employment	Employment in Sudbury will remain under pressure this year but will grow in 2015-2016.
Income	Average weekly earnings in Sudbury are expected to remain strong over the forecast horizon.
Population	Slower net-migration will result in sluggish population growth dampening demand for all types of housing in 2014; specifically rental accommodations.
Resale Market	Resale market conditions for 2014 and 2015 are expected to be balanced. MLS® sales will recover in 2015 after negative growth in the last two years.

Forecast Risks

This outlook is subject to some risks, including:

- While the outlook for the Canadian housing sector is one of moderate growth in the near term with moderation expected in the medium-term, there are risks to the Canadian housing sector outlook. One of them is household debt-levels in Canada, which is though stabilizing, continue to be high relative to historical standards. Given that Canada is an open economy, there are a number of global market risks to consider that could put added pressure on the ability of households to service their debts, through their impact on household incomes, employment and lending rates.
- There is a risk of slowdown in China, with the possibility that China could miss its 2014 growth targets, coupled with uncertainty regarding the stability of the Chinese banking system. This could negatively impact the demand for Canadian exports to China, contributing to a weakening of the Canadian economy and potentially lower demand for housing.
- A stronger than expected U.S. economic growth forecast could positively impact Canadian economic growth, contributing to a higher level of activity in Canada's housing markets.
- Recent upward movements in Canadian consumer prices could lead to pressure to raise interest rates earlier than currently anticipated and would likely translate to rising mortgage rates. However, the Bank of Canada has indicated that it expects recent upward price movements to only be temporary, primarily reflecting a weak Canadian dollar. In any case, the BOC noted in its June 2014 Financial System Review that a significant housing market correction would require a market event leading to declining household incomes and rising unemployment. Gradual increases in mortgage rates, in and of themselves, are not expected to have a significant impact on housing demand.

Forecast Summary Greater Sudbury CMA Fall 2014									
	2011	2012	2013	2014(F)	% chg	2015(F)	% chg	2016(F)	% chg
New Home Market									
Starts:									
Single-Detached	321	294	208	165	-20.7	175	6.1	180	2.9
Multiples	274	242	223	90	-59.6	85	-5.6	90	5.9
Semi-Detached	40	48	28	30	7.1	30	0.0	30	0.0
Row/Townhouse	54	29	7	15	114.3	20	33.3	20	0.0
Apartments	180	165	188	45	-76.1	35	-22.2	40	14.3
Starts - Total	595	536	431	255	-40.8	260	2.0	270	3.8
Average Price ($):									
Single-Detached	372,831	383,665	427,291	432,000	1.1	445,000	3.0	465,000	4.5
Median Price ($):									
Single-Detached	366,900	369,900	422,950	425,000	0.5	435,000	2.4	450,000	3.4
New Housing Price Index (% chg) (Thunder Bay-Sudbury)	0.1	1.3	0.9	0.6	-	1.2	-	1.6	-
Resale Market									
MLS® Sales	2,507	2,478	2,308	2,150	-6.8	2,200	2.3	2,100	-4.5
MLS® New Listings	4,354	4,177	4,448	4,668	4.9	4,723	1.2	4,813	1.9
MLS® Average Price ($)	229,485	240,312	245,307	250,000	1.9	253,000	1.2	255,000	0.8
Rental Market									
October Vacancy Rate (%)	2.8	2.7	3.4	4.0	0.6	4.3	0.3	4.6	0.3
Two-bedroom Average Rent (October) ($)	881	915	914	930	1.8	950	2.2	965	1.6
Economic Overview									
Mortgage Rate (1 year) (%)	3.52	3.17	3.08	3.00 - 3.25	-	3.20 - 4.00	-	3.70 - 4.60	-
Mortgage Rate (5 year) (%)	5.37	5.27	5.24	5.00 - 5.50	-	5.25 - 6.00	-	5.55 - 6.45	-
Annual Employment Level	83,200	81,700	82,900	82,400	-0.6	83,700	1.6	84,400	0.8
Employment Growth (%)	2.1	-1.8	1.5	-0.6	-	1.6	-	0.8	-
Unemployment rate (%)	6.8	6.9	7.2	7.2	-	6.8	-	6.7	-
Net Migration	61	229	33	100	**	300	200.0	200	-33.3

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly **Starts and Completions Survey**. Building permits are used to determine construction sites and visits confirm construction stages. A **start** is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's **Market Absorption Survey**, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "**absorbed**" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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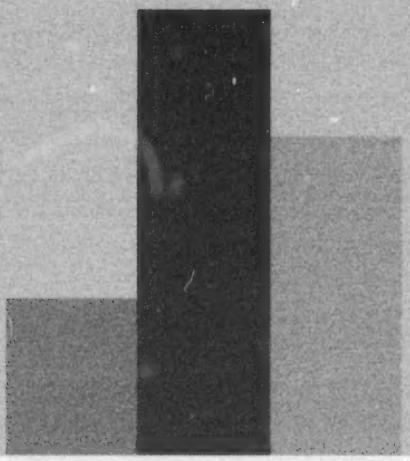

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